

The purpose of this primer is to describe briefly the annual budget and appropriations process for the state.

The Governor, by KSA 75-3721, must present spending recommendations to the Legislature. *The Governor's Budget Report* reflects expenditures for both the current and upcoming fiscal years and identifies the sources of financing for them.

The Legislature uses *The Governor's Budget Report* as a guide as it appropriates the money necessary for state agencies to operate. Only the Legislature can authorize expenditures by the State of Kansas. The Governor recommends spending levels, while the Legislature chooses whether to accept or modify those recommendations. The Governor may veto legislative appropriations, although the Legislature may override any veto by a two-thirds majority vote.

**Fiscal Years.** It is important when reading the budget to consider which fiscal year is being discussed. The state *fiscal year* runs from July 1 to the following June 30 and is numbered for the calendar year in which it ends. The *current fiscal year* is the one which ends the coming June. The *actual fiscal year* is the year which concluded the previous June. The *budget year* refers to the next fiscal year, which begins the July following the Legislature's adjournment. Finally, *out-years* refer to the years beyond the budget year. In *The FY 2011 Governor's Budget Report*, the actual fiscal year is FY 2009, the current fiscal year is FY 2010, and the budget year is FY 2011.

By law, *The Governor's Budget Report* must reflect actual year spending, the Governor's revised spending recommendations for the current fiscal year, state agency spending requests for the budget year, and the Governor's spending recommendations for the budget year. The budget recommendations cannot include the expenditure of anticipated income attributable to proposed legislation. Expenditure data are shown by agency and category of expenditure in the schedules at the back of this volume. Those same data are included, by agency and program, in *Volume 2 of The Governor's Budget Report*.

**Annual-Biennial Budgets.** Appropriations for agency operating expenditures have been made on an annual

basis since 1956. With enactment of legislation in 1994, the budgets of 20 state agencies were approved on a biennial basis starting with FY 1996. They were all financed through fee funds. Since then, two of these merged and a non-fee agency was added, leaving the total at 20.

**Financing of State Spending.** Frequent reference is made to *State General Fund* expenditures and expenditures from *all funding sources*. Expenditures from all funding sources include both State General Fund expenditures and expenditures from special revenue funds. All money spent by the state must first be appropriated by the Legislature, either from the State General Fund or from special revenue funds.

The State General Fund receives the most attention in the budget because it is the largest source of the "uncommitted" revenue available to the state. It is also the fund to which most general tax receipts are credited. The Legislature may spend State General Fund dollars for any governmental purpose.

Special revenue funds, by contrast, are dedicated to a specific purpose. For instance, the Legislature may not spend monies from the State Highway Fund to build new prisons. The State Highway Fund, which is the largest state special revenue fund, can be used only for highway purposes. It consists primarily of motor fuel taxes, federal grants, vehicle registration fees, and a dedicated portion of sales and use tax. Other examples of special revenue funds are the three state building funds, which are used predominantly for capital improvements; federal funds made available for specific purposes; and the Board of Accountancy Fee Fund, which can be used only to support operations of the Board. The Economic Development Initiatives Fund, the Children's Initiatives Fund, the Kansas Endowment for Youth Fund, the Expanded Lottery Act Revenues Fund, and the State Water Plan Fund are special revenue funds. However, these funds function the same as the State General Fund.

**Revenue Estimates.** The tool used by both the Governor and the Legislature to determine State General Fund revenue is the "consensus revenue estimate" prepared by the Consensus Revenue Estimating Group.

The consensus revenue estimate is important because both the Governor and the Legislature base their budget decisions on it. The estimate is categorized by major source and covers a two-year period: the current year and the budget year. In addition, KSA 75-6701 requires that the Director of the Budget and the Director of the Legislative Research Department certify a joint estimate of State General Fund resources to the Legislature. The revenue estimating process is the source of that estimate.

The Consensus Revenue Estimating Group is composed of representatives of the Division of the Budget, the Department of Revenue, the Legislative Research Department, and one consulting economist each from the University of Kansas, Kansas State University, and Wichita State University. The Director of the Budget serves as unofficial chairperson.

The Consensus Revenue Estimating Group meets each spring and fall. Before December 4 (typically in November) of each year, the group makes its initial estimate for the budget year and revises its estimate for the current year. The results are reported to the Governor, Legislature, and public in a joint memorandum from the Director of Legislative Research and the Director of the Budget. The group meets again before April 20 to review the fall estimate and additional data. The group then publishes a revised estimate which the Legislature may use in adjusting expenditures, if necessary.

The consensus revenue estimate is the official revenue projection for the State General Fund. Estimates of revenues to other funds are prepared by individual state agencies, reviewed by the Division of the Budget, and included in *The Governor's Budget Report*.

The State General Fund consensus revenue estimate for FY 2011 is \$5.2 billion, which is subject to revision in April 2010. This estimate and the assumptions upon which it is based are discussed in the State General Fund Revenues section of this volume. A complete discussion of the economy is included in *The Governor's Economic and Demographic Report*. This report is prepared by the Division of the Budget and a Wichita State University economist.

**Budget Balancing Mechanisms.** This term refers to KSA 75-6701 to 75-6704. The purpose of the law is

to ensure an adequate operating balance in the State General Fund. The practical effect of this provision is to target the ending balance in the State General Fund to be at least 7.5 percent of authorized expenditures and demand transfers in the budget year. The statutory provisions were suspended for the first time for FY 2003, and the suspension has been continued each year since then.

The “spending lid” statute requires *The Governor's Budget Report* and actions of the Legislature to comply with its provisions. An “Omnibus Reconciliation Spending Limit Bill” must be the last appropriation bill passed by the Legislature. The purpose of the bill is to reconcile State General Fund expenditures and revenues by reducing expenditures, if necessary, to meet the provisions of the “spending lid.”

The final provision of the “spending lid” act allows the Governor to reduce State General Fund expenditures in the current fiscal year, when the Legislature is not in session, by an amount not to exceed that necessary to retain an ending balance in the State General Fund of \$100.0 million. The Governor must make the reductions “across the board” by reducing each line item of expenditure by a fixed percentage. The only exceptions are debt service obligations, state retirement contributions for school employees, and transfers to the School District Capital Improvements Fund. The reductions must be approved by the State Finance Council.

In addition to the “spending lid” act, the Governor has the authority under a statutory allotment system to limit expenditures of the State General Fund and special revenue funds when it appears that available monies are not sufficient to satisfy expenditure obligations. This authority applies to agencies of the Executive Branch but not the Legislature or the Judiciary. Allotments can be made on a case-by-case basis and do not have to be across the board. Agencies have the right to appeal any allotment amount and the Governor makes the final determination.

Prior to FY 2003, the allotment system had not been used for 30 years; however, Governor Graves imposed two rounds of allotments that year. In FY 2009, Governor Sebelius imposed two allotments as well of a limited scope. Governor Parkinson imposed two comprehensive allotments for FY 2010 to bring State General Fund expenditures in balance with anticipated revenues.

**Classification of State Spending.** The State of Kansas classifies state spending by function of government and by category of expenditure. Function of government is a grouping of agencies which make expenditures for similar programs and purposes. There are six functions of government: general government, human services, education, public safety, agriculture and natural resources, and transportation. Category of expenditure classifies expenditures according to budgeting and accounting objects of expenditure (state operations; aid to local governments; other assistance, grants, and benefits; and capital improvements).

Each of the six functions of government is discussed in a section of this volume. The following is a brief description of each function.

*General Government* includes state agencies with both administrative and regulatory functions. These agencies include elected officials (the Governor, Secretary of State, etc.) and the Department of Administration. The Board of Nursing, the Kansas

Corporation Commission, the Racing and Gaming Commission, and the Department of Revenue are examples of agencies that perform a regulatory function. Other general government agencies include the Legislature and the Judiciary. Approximately 5.9 percent of total expenditures and 4.4 percent of State General Fund expenditures recommended by the Governor for FY 2011 are for General Government.

Agencies in the *Human Services* function provide services to individuals. Such services include the nutrition programs of the Department on Aging; care of the developmentally disabled as well as financial assistance and social services by the Department of Social and Rehabilitation Services; health care programs administered by Kansas Health Policy Authority; services to veterans provided by the Kansas Commission on Veterans Affairs; job training placement assistance provided by the Department of Labor; and Division of Health programs in the Department of Health and Environment. Expenditures recommended for Human Services for FY 2011 constitute 36.1 percent of all recommended expenditures and 23.3 percent of State General Fund expenditures.

The *Education* function agencies provide various educational services to Kansans. While Regents institutions and the Board of Education provide direct education services, services by agencies such as the State Library are indirect in nature. Recommended Education expenditures represent 43.9 percent of total expenditures for FY 2011 and 65.3 percent of the State General Fund expenditures.

*Public Safety* agencies ensure the safety and security of Kansas citizens. Agencies in this function include the Department of Corrections and law enforcement agencies. Also included are the Juvenile Justice Authority and the juvenile correctional facilities, the Highway Patrol, and the Kansas Bureau of Investigation. Public Safety expenditures constitute 5.0 percent of the total recommended expenditures for the FY 2011 budget and 6.1 percent of recommended expenditures from the State General Fund.

*Agriculture and Natural Resources* agencies protect the natural and physical resources of the state and regulate the use of those resources. The FY 2011 expenditures recommended by the Governor constitute 1.3 percent of total expenditures and 0.5 percent of State General Fund expenditures. Agencies included

### FY 2011 Expenditures by Function

(Dollars in Millions)

	SGF	All Funds
General Government	\$ 255.3 4.4%	\$ 809.7 5.9%
Human Services	\$ 1,360.1 23.3%	\$ 4,959.9 36.1%
Education	\$ 3,809.4 65.3%	\$ 6,023.6 43.9%
Public Safety	\$ 353.8 6.1%	\$ 684.5 5.0%
Agriculture & Natural Resources	\$ 27.8 0.5%	\$ 182.8 1.3%
Transportation	\$ 16.2 0.3%	\$ 1,057.1 7.7%
Undrmkt. Sal. Adj.	\$ 8.5 0.1%	\$ 8.5 0.1%
Total	\$ 5,831.1 100.0%	\$ 13,726.1 100.0%

Totals may not add because of rounding.

in this function are the Department of Agriculture, the Division of Environment of the Department of Health and Environment, and the Department of Wildlife and Parks.

*Transportation* includes only the Department of Transportation and bond payments in the Department of Administration. Responsibilities of this agency include maintenance and construction of highways in Kansas. Recommended expenditures constitute 7.7 percent of the total recommended budget for FY 2011 and 0.3 percent of the recommended State General Fund expenditures.

Categories of expenditure are based on accounting objects of expenditure. The four general categories are state operations; aid to local governments; other assistance, grants, and benefits; as well as capital improvements. The first three categories constitute what are called operating expenditures.

Following is a brief guide to the general categories of expenditure:

*State Operations* includes expenditures incurred conducting the day-to-day business of state government. The largest category of these costs is the salaries and wages paid to state employees. Expenditures in this category constitute 29.4 percent of the FY 2011 total budget and 24.4 percent of the State General Fund budget.

*Aid to Local Governments* consists of payments made to governments which provide services at the local level and in most cases have taxing authority. General State Aid to school districts is an example; it consists of more than \$1,994.1 million for FY 2011. This category constitutes 31.0 percent of the FY 2011 total budget and 55.0 percent of the State General Fund budget.

*Other Assistance, Grants, and Benefits* constitutes payments to individuals and agencies that are not governments. Medicaid payments, financial aid for postsecondary education, nutrition assistance for mothers and their babies, and temporary assistance for needy families are examples. This category includes 34.1 percent of total expenditures in FY 2011 and 20.1 percent of the State General Fund.

*Capital Improvements* include highway construction costs as well as the cost of rehabilitation and repair,

razing, remodeling, and construction of state-owned buildings and other facilities. Some of these projects are financed by bond issues. The cost of that portion of the debt service payment on bonds that represents the principal is also included in this category. By far the largest portion of the expenditures in this category is highway construction costs. Capital improvement expenditures represent 5.5 percent of total expenditures in FY 2011 and 0.6 percent of State General Fund expenditures. Included in this volume are separate sections on capital improvements and debt service.

### FY 2011 Expenditures by Category

(Dollars in Millions)

	<u>SGF</u>	<u>All Funds</u>
State Operations	\$ 1,420.0 24.4%	\$ 4,037.7 29.4%
Aid to Local Governments	\$ 3,204.6 55.0%	\$ 4,248.9 31.0%
Other Assistance, Grants, & Benefits	\$ 1,171.7 20.1%	\$ 4,679.9 34.1%
Capital Improvements	\$ 34.7 0.6%	\$ 759.6 5.5%
Total	\$ 5,831.1 100.0%	\$ 13,726.1 100.0%

Totals may not add because of rounding.

**State Employees.** A major part of the state operations category of expenditures is salary and wage payments to employees in the State Civil Service. For FY 2011, 18.5 percent of all expenditures are budgeted for salaries and wages.

The State Civil Service, by KSA 75-2935, includes the classified and the unclassified service. Employees hired to fill positions in the classified service must be hired on the basis of merit as determined by standardized requirements for knowledge, skills, and abilities. These employees are also promoted and discharged according to rules and regulations established for administration of the Kansas Civil Service Act.

The classified personnel service includes *regular* full-time and part-time positions. The classified service also includes the following special types of appointments:

*Limited Term* appointments are made in cases where the position will be eliminated at the end of a predetermined length of time as stipulated in a federal grant or contractual agreement. Except for this time factor, which means an employee in one of these positions has no layoff rights, limited term appointments are the same as classified positions.

*Temporary* positions may be either classified or unclassified. Those positions in the classified service require the employee filling the position to work no more than 999 hours in a 12-month period. The unclassified temporary category in the SHARP personnel and payroll system consists of two groups: those that truly are temporary and non-FTE unclassified permanent positions. Positions in the second group are counted as part of the state workforce because they participate in the state retirement system.

The regular unclassified service includes full-time and part-time positions specifically designated as being in the unclassified service. Typically these positions are defined by certain agencies, or types of agencies, for particular purposes. Examples are all employees of the Legislature; teaching, research, student, and health care employees of the Regents institutions; and all employees of the courts. Unclassified positions are governed by rules and regulations of the appointing agencies and are not subject to Civil Service Act rules and regulations.

**Children's Budget.** KSA 75-3717(a)(2) requires that the Governor include in *The Governor's Budget Report* a listing of all state agency programs that "provide services for children and their families." The information is summarized in the Children's Budget, which includes expenditures from all funding sources and from the State General Fund, by agency and by project; the number of children or families served in each program; and a brief description of each of the agency programs.

**Budget Process.** Producing a budget is a continuous process. However, it does have certain discrete phases. In the Executive Branch, the budget process begins as soon as the legislative session ends. At that time, the budget staff prepares *The Comparison Report*. This report compares the budget recommended by the Governor for the current and budget fiscal years to the budget approved by the Legislature.

In June, budget instructions are distributed by the Division of the Budget to state agencies. These instructions include allocations that each Executive Branch agency uses in budget preparation and instructions for preparing a capital budget for the budget year based on the approved budget for the current fiscal year, as adjusted for one-time expenditures, caseloads, and the annualization of partial-year funding. Enhancement packages and reduced resource packages are also a part of budget preparation.

On July 1, agencies use the budget instructions to submit a capital budget. The capital budget contains a five-year plan, which includes the capital improvement requests for the current year, the budget year, and four out-years following the budget year.

Concurrent with preparation of financial segments of the agency budget is completion of agency strategic plans that are submitted with the budget in September. Agency strategic plans establish a clear definition of mission and a direction for the future; develop agency-wide work plans and agency-specific objectives as well as strategies for fulfilling the agency mission; and allocate resources according to priority and ensure accountability for the use of those resources. As part of the strategic planning process, agencies identify an agency mission, agency philosophy, goals and objectives, and performance measures to track progress toward the plan.

Agencies are requested to prepare one complete operating budget for submission on September 15. For Executive Branch agencies, the submission is based on an allocation prepared by the Division of the Budget in June. Each Executive Branch budget submission also includes reduced resource packages that detail how the services provided by the agency would be affected under a reduced resource scenario. The Division of the Budget identifies the amount for these agencies to use in preparing their reduction packages. Agencies may also submit requests for incremental additions to their base budgets in the form of enhancement packages that represent new programs or the expansion of existing ones. All of the budget components are intended to reflect program priorities.

According to law, the Governor cannot make a recommendation with respect to the budget request submitted by the Judiciary. As a matter of policy, the Governor treats the legislative budgets in the same

way, although pay plan adjustments are made. Therefore, the Governor includes these budgets as requested to present a complete state budget that accounts for all demands for state funds. Modification to the Judiciary and Legislative Branch budgets, if any, is now the responsibility of the Legislature.

The individual budgets submitted by state agencies show program expenditures with appropriate funding sources for each program within the agency. These data are shown for the actual fiscal year, the current year, and the budget year. Budget submissions also document performance that relates to the outputs and outcomes identified in the agency's strategic plan. Evaluation of performance provides a means for weighing budget alternatives.

Beginning September 15, analysts in the Division of the Budget review agency budget requests. The Division of the Budget recommendations, based on those analyses, are provided to each state agency by November 10. The agencies then have ten days to determine whether to appeal those recommendations to the Secretary of Administration. Many appeal the recommendations in writing; some also request an appointment to present an oral appeal.

Once the appeal process has been completed, the Division of the Budget staff prepares its presentations for the Governor. An analysis of the difference between the Division of the Budget recommendations and the agency's request, including the effect on performance, is presented to the Governor. The analysis includes the agency's request and the basis for it, the Division of the Budget recommendation and the basis for it, and the agency's appeal, if any. The Governor uses this information to make budget determinations for all Executive Branch agencies. The Division of the Budget then aggregates final recommendations and prepares *The Governor's Budget Report*.

During this same period, between September 15 and commencement of the legislative session in January, the Legislative Research Department's fiscal staff also is analyzing agency budgets. Following receipt of the Governor's recommendations, legislative fiscal analysts update their analysis for each agency to reflect the recommendations of the Governor. These updated budget analyses are printed in the Legislative Research Department's annual analysis and copies are distributed to each legislator.

**Consideration by Legislature.** The Governor's budget recommendations are drafted into appropriation language by the Office of the Revisor of Statutes. Appropriations are usually divided into three parts: supplemental appropriations, capital improvement appropriations, and budget year expenditure authority for all agencies except biennial agencies, whose expenditure authorizations cover a two-year period. The appropriations are simultaneously considered by the Ways and Means Committee of the Senate and the Appropriations Committee of the House.

The Chairperson of the Ways and Means Committee appoints Senate Subcommittees and the Speaker appoints House Budget Committees to consider appropriations for various agencies. They vary in size; usually between two and nine persons are named to a subcommittee or budget committee. After reviewing the budget requests, the subcommittee or budget committee drafts a report which details all budgetary adjustments to the Governor's budget recommendations. The House Budget Committees make recommendations to the House Appropriations Committee. The budget committee or subcommittee report may contain administrative or programmatic recommendations.

The subcommittee or budget committee report is presented to the full committee for consideration. A committee may adjust the recommendations of its subcommittee or budget committee in any area or it may adopt the entire report as submitted. The appropriations are reprinted in order to reflect the recommendations of the full committee. The appropriations are then presented to either the House or Senate, which may amend or reject them.

**Conference Committee Action.** Upon completion of consideration of the appropriations by both chambers, the bills typically go to a conference committee so that differences between the House and Senate versions can be reconciled. Each chamber then votes to accept or reject this appropriation bill. If either chamber rejects the conference committee report on the appropriation bill, it is returned to the conference committee for further review and for possible modification.

**Omnibus Appropriation Bill.** Traditionally, this has been the last appropriation bill of the session. It contains any appropriation necessary to carry out the intent of the Legislature that has not yet been included in another appropriation bill. Since the advent of the

statutory requirement for an Omnibus Reconciliation Spending Limit Bill to be passed at the end of the session, the Omnibus Appropriation Bill has served as the reconciliation bill.

**State Finance Council.** The Finance Council is a statutory body that provides a mechanism for making certain budgetary and personnel adjustments when the Legislature is not in session. The Council consists of nine members: the Governor, Speaker of the House, President of the Senate, House and Senate majority leaders, minority leaders, as well as Ways and Means and Appropriations Committee chairpersons.

The Governor serves as chairperson of the Finance Council. Meetings are at the call of the Governor, who also prepares the agenda. Items are eligible to receive Finance Council consideration only if they are characterized as a legislative delegation to the Finance Council. Approval of Finance Council items typically requires the vote of the Governor and a majority of the legislative members.

Present statutes characterize the following items of general application to state agencies as legislative delegations, allowing them to receive Finance Council approval under certain circumstances:

1. Increases in expenditure limitations on special revenue funds and release of State General Fund appropriations.
2. Authorization for state agencies to contract with other state or federal agencies, if the agencies do not already have such authorization.

3. Authorization of expenditures from the State Emergency Fund for purposes enumerated in the statutes.
4. Increases in limitations on positions imposed by appropriation acts on state agencies.
5. Approval of the issuance of certificates of indebtedness to maintain a positive cashflow for the State General Fund.
6. Approval to issue bonds for capital projects when an agency has been granted bonding authority.

Certain other items of limited application are characterized as legislative delegations by individual legislative acts, allowing them to be subject to Finance Council action. The Finance Council cannot appropriate money from the State General Fund, authorize expenditures for a purpose that specifically was rejected by the previous legislative session, or commit future legislative sessions to provide funds for a particular program.

The chart on the next page is intended to capture the essential elements of the budget process on a single page over the course of a complete yearly cycle and to depict the roles and interactions of the primary agencies involved in developing and approving the state budget.

*Prepared by the Division of the Budget in cooperation with the Legislative Research Department.*

## Kansas Budget Cycle

	June	July	August	September	October	November	December	January	February	March	April	May
State Agencies	Prepare 5-year capital improvement plans for submission July 1		Prepare budgets in budget system & submit to Budget Division & Legislative Research							Review budgets & request amendments to update the Governor's recommendations		
Governor & Budget Division	Budget Division issues instructions to allocations to agencies in developing budget requests	Budget Division conducts agency budget training, analyzes capital projects, & makes on-site agency visits			Budget staff analyzes agency budget requests & makes preliminary recommendations	Budget Division recommendations to agencies & agency appeals are heard	Governor develops recommendations to the Legislature & Budget Division prepares budget documents	Governor submits <i>Budget Report</i> to Legislature by 8th calendar day of the Session (21st day for new Governor)	Budget Division prepares fiscal notes on legislative bills, drafts introduced version of appropriation bills, tracks legislative adjustments to Governor's recommendations, & prepares amendments to Governor's original recommendations for the Omnibus Bill			Budget Division reconciles final budget numbers with legislative fiscal staff & prepares post-session report
Consensus Revenue Estimating Group						Project State General Fund revenues					Project State General Fund revenues	
Legislative Fiscal Staff	Legislative fiscal staff prepares <i>Fiscal Facts</i> , <i>Appropriations Report</i> , & works with interim legislative committees				Legislative fiscal staff analyzes agency budget requests, begins to prepare Budget Analysis, & continues to work with interim committees			Fiscal staff analyzes Governor's budget recommendations & completes the Budget Analysis	Legislative fiscal staff works with subcommittees & budget committees of Senate Ways & Means & House Appropriations on finalizing the budget	Fiscal staff prepares items for Omnibus Bill consideration & works with Legislature to develop Omnibus Bill		Legislative fiscal staff reconciles final budget numbers with Budget Division & prepares post-session report
Legislature								Subcommittees of House Appropriations & Senate Ways & Means begin review of agency budgets	Appropriations bills are reviewed & acted upon in the House & Senate	Conference Committees resolve differences in appropriations bills	Omnibus Bill considered & acted upon	Legislature adjourns



The State of Kansas observes the following financial policies to manage fiscal affairs responsibly.

### **Operating Policies**

The state, through performance budgeting principles, allocates available public resources in keeping with the goals and objectives of state agencies as embodied in their strategic plans.

The state emphasizes the preservation of existing capital facilities over the construction of new ones. A major portion of the Educational Building Fund for universities, Correctional Institutions Building Fund for correctional facilities, and State Institutions Building Fund for hospitals and juvenile correctional facilities is dedicated to rehabilitation and repair.

### **Revenue Policies**

The state maximizes the use of fee funds, federal funds, and other special revenues to preserve the integrity of the State General Fund and ensure budgetary flexibility.

The state uses consensus revenue estimates developed by executive and legislative professional staff as well as university economist consultants as the basis for budgetary decisionmaking.

The state collects taxes, penalties and interest, and other revenues. Internally, state collection units make multiple efforts to collect amounts due the state by using administrative procedures and liens against property. Persistent delinquencies are pursued through legal proceedings and, after exhausting all remedies, may be referred to a private collection agency.

### **Cash Management Policies**

On a daily basis, the state monitors receipts into, and expenditures out of, the state treasury. Ensuring the state has adequate resources at the time obligations occur is the primary goal. Certificates of indebtedness are the first tool used to meet this goal. Managing the timing of expenditures is a secondary tool.

The state invests idle funds to match these anticipated cashflow needs by using commercial paper, repurchase agreements, government securities and collateralized bank deposits to provide safety, liquidity, and yield in that order.

### **Debt Service Policies**

The state incurs debt through the issuance of revenue bonds mainly to finance capital improvements, equipment, certain grant programs, and reducing the unfunded liability of the KPERS Fund. The use of debt financing for operating expenses in state government is limited.

The constitution allows for the issuance of general obligation bonds subject to certain restrictions. However, the state has not exercised this authority for many years.

The most recent issuer credit ratings for the State of Kansas are AA+ by Standard and Poor's and Aa1 by Moody's Corporation. These ratings indicate that the state has a strong capacity to meet its financial commitments and reflect the following credit factors: a relatively diverse economic base, conservative fiscal management, and a low debt burden.

### **Reserve Policy**

State law requires an ending balance of at least 7.5 percent of total expenditures in the State General Fund for the Governor's budget recommendations and the legislative-approved budget. This was intended to provide sufficient cash throughout the year and provide a cushion against tax revenue downturns.

### **Accounting, Auditing, & Reporting Policies**

The state prepares financial statements in accordance with generally accepted accounting principles, and an independent certified public accounting firm conducts a financial and compliance audit of those statements. As a part of that statewide audit, compliance and control audits of individual agencies are performed at least once every three years. For budgeting, the state avoids double counting expenditures by treating non-expense items and a number of "off budget" expenses as non-reportable.

# Basis of Budgeting

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## Revenue

Receipts to funds in Kansas generally are credited on a cash basis, not as accounts receivable. However, each July 1 for cashflow purposes, the Educational Building Fund, Correctional Institutions Building Fund, and State Institutions Building Fund are credited with receipts totaling 95.0 percent of each fund's actual receipts in the previous fiscal year. In a similar manner, the Children's Initiatives Fund, the Economic Development Initiatives Fund, and the Kansas Endowment for Youth Fund receive credits at the beginning of the year for cashflow needs.

## Encumbrances

For budgeting purposes, encumbrances are treated as reportable expenditures; therefore, no distinction is made between cash outlays or liquidated and unliquidated encumbrances. Encumbrances, along with the funds to liquidate them, are attributed to the fiscal year in which they were incurred.

## Expenditures

Expenditures are separated into two categories: reportable and non-reportable. Reportable expenses are direct cash outlays and encumbrances for salaries and wages; other operating expenditures; aid to local governments; other assistance, grants, and benefits; and capital improvements incurred by state agencies. In general, the dollars reported throughout the budget, especially the accumulated totals in statewide tables and schedules, are reportable expenditures.

With debt-financed projects, the debt service is reported, and not the cost of the project. The interest portion of capital projects is considered an operating expense, whereas the principal portion is a capital expense.

The budgeting and accounting systems differ in their reporting of certain capital costs. For example, a facility purchased by bonds through the Kansas Development Finance Authority and leased to a state agency is reported as a lease/rental cost to the agency in the accounting system. In budgeting, it is reported

as a capital improvement cost because a facility is being added to the state's inventory of capital assets.

For budgeting purposes, there are several kinds of non-reportable expenditures. Chief among these are so-called "off budget" expenditures in the Department of Administration. Dollars spent in many state agencies' budgets for printing services, for example, are spent again to operate the Printing Plant. The agencies' costs are treated as reportable and the Printing Plant's non-reportable to avoid counting the same dollars twice. These non-reportable expenditures are included separately in the budget reports, but they are not included in statewide totals.

Other non-reportable expenditures are clearing and suspense funds, revolving funds, inmate or patient benefit and trust funds, bond proceeds, and non-expense items, such as refunds. Bond proceeds are not included in the budget report, except for those of the Comprehensive Transportation Program.

## Balances

Beginning and ending fund balances for budgeting purposes generally reflect unencumbered cash balances only. For example, if an encumbrance in a prior fiscal year has not been liquidated, the accounting system still shows the amount of the cash reserve set aside to liquidate that encumbrance. Budget reports, on the other hand, deduct the amount from the balance in the prior fiscal year, so none of the fund activity of the prior fiscal year distorts activity in later years. Thus, for trend analysis and other budgeting purposes, it is important to show fund activity in the fiscal year to which it is attributed. The current cash status reports of the accounting system, by contrast, are more important for cash management.

Funds that become unencumbered when a cash outlay is made are shown as an addition to the beginning balance of the fiscal year following the year from which the funds were unencumbered, except released encumbrances from the State General Fund are credited to the 27th Payroll Adjustment Account. The effect is to increase available funds; however, reported expenditures in prior fiscal years are not adjusted for the unencumbered amounts.

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## Budget Preparation

Budget preparations for the FY 2011 budget cycle were again affected by the downturn in the national economy and a declining State General Fund revenue forecast.

General instructions for budget preparation were sent to agencies in June 2009, but soon after, the Governor issued allotment reductions so that the approved FY 2010 budget could be reduced by \$160.0 million. Agencies were instructed to incorporate their reductions as part of these revised FY 2010 budget request. The Governor's directive did not apply to human service caseloads or debt service.

In July 2009, the Division of the Budget provided agencies with allocated amounts for the use of State General Fund and Economic Development Initiatives Fund in FY 2011. Agencies were instructed to build their base FY 2011 budget requests within the allocated amounts.

Allocations were based on an agency's approved FY 2010 budget. Limited amounts were added to the allocation to cover expected increased costs for state employee health care, KPERS contributions, and workers compensation.

Agencies that wished to request funds beyond the amounts allocated were instructed to ask for the funding as an enhancement. Also, agencies were directed to submit reduced resource packages that outlined how their allocated budget amount could be reduced by 5.0 percent, if necessary.

The Legislative and Judicial Branches of government were not given allocations as part of their budget instructions, nor were they expected to submit reduced resource packages, although the Governor did formally request that the other two branches of government participate in current year reductions.

Agency budget requests were due to the Division of the Budget on September 15. The Division used the submitted requests to develop an initial set of recommendations for each agency and distributed those recommendations to agencies on November 10. In the initial part of budget review, Division analysts worked to arrive at revised FY 2010 budget recommendations at least 2.0 percent lower than the approved budget. In early November, the Consensus Revenue Estimate for FY 2010 was revised downward by \$235.2 million. In response, the Governor directed agencies to plan for a second round of allotments and Division analysts made further reductions to their recommendations for each agency, and the allotment was put in place in December. A bill was drafted to enact those current year reductions recommended by the Governor but which require legislative action.

Written appeals to the Division of the Budget recommendations were due by November 20. Agency appeals presented in person were heard November 24.

The Governor developed his final recommendations in December after considering the state's financial situation, recommendations made already by the Division of the Budget, agency appeals, and other factors.